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Annual Report

OF

Strawbridge & Clothier

PHILADELPHIA, PA.

FOR THE FISCAL YEAR ENDED
JANUARY 31, 1946

BOARD OF DIRECTORS

MORRIS L. CLOTHIER, *Chairman*

HERBERT J. TILY
ISAAC H. CLOTHIER, JR.
ROBERT E. STRAWBRIDGE
FREDERIC H. STRAWBRIDGE
FRANCIS R. STRAWBRIDGE
HOWARD COOPER JOHNSON
JOHN JACKSON
J. CLAYTON STRAWBRIDGE

OFFICERS

MORRIS L. CLOTHIER, Chairman of the Board
HERBERT J. TILY, President
ISAAC H. CLOTHIER, JR., Vice-President
ROBERT E. STRAWBRIDGE, Vice-President
HOWARD COOPER JOHNSON, Vice-President and Treasurer
JOHN JACKSON, Vice-President
J. CLAYTON STRAWBRIDGE, Secretary

STRAWBRIDGE & CLOTHIER

ANNUAL REPORT

April 2, 1946.

To the Stockholders of
Strawbridge & Clothier:

Herewith is submitted the annual report of your Company for the fiscal year ended January 31, 1946 (the 77th year in the history of the business), duly certified by Ernst & Ernst, accountants elected by the stockholders.

Results of the year's operations, compared with those of the previous year, follow:

	Current Year	*Previous Year*	*Increase*
Earnings before taxes on income	$6,522,100	$5,674,297	$847,803
Taxes on income	4,690,000	4,185,000	505,000
Net Profit	$1,832,100	$1,489,297	$342,803
Dividends paid on preferred stocks	518,752	484,283	34,469
Earnings on common stock	$1,313,348	$1,005,014	$308,334
Earnings per share on common stock	$6.90	$5.31	$1.59

Taxes on income amounted to 71.9% of the current year's earnings, compared to 73.75% for the previous year. The decrease is primarily due to the reduction in rates effective January 1, 1946. During the four war years ended January 31, 1946, income taxes amounted to $14,582,500, or 72.68% of the total income for the same period. The payment of these taxes was one of your Company's real contributions to the winning of the war, and we are justly proud that we were able in this financial way, as well as in many other ways, to have had a part in maintaining the American way of life.

Sales at all three stores were the largest, in quantity as well as dollars, in the history of the business, despite the nation-wide shortages of merchandise, and we believe that a relatively good

standard of service was maintained for our customers. The Company's executive staff, which so ably met all the wartime handicaps and difficulties through its resourcefulness and industry, has already put into effect plans for revitalizing those departments depleted by lack of production during the war.

Attention is again called to the fact that merchandise inventories are conservatively valued on the "last-in, first-out" method, which, as explained in the notes to the financial statements, provides a substantial reserve against possible future price adjustments.

During the year the Company called for redemption the balance of the Five Per Cent Preferred Stock (formerly 7% Cumulative Preferred Stock) and the dividends of $43.50 per share accumulated on this stock to December 31, 1941, were paid, thus bringing the Company up to date on all its preferred stock dividend requirements. The Company also paid off the first mortgage on the main store by utilization of a term loan negotiated at a substantial reduction in interest rates. The net reduction of long-term debt during the fiscal year was $2,504,273.50 and the reduction in interest cost was $96,608.09. With the decrease in current corporate income tax rates the future benefits arising from the refinancing will be substantial.

With the advent of peace and the release of wartime restrictions, our plans for up-to-date improvements in our stores have progressed rapidly. Already the installation of additional escalators and air-conditioning in the Philadelphia store is under way, and many other improvements, too numerous to mention here, will rapidly follow.

Many of our former employees have returned from service in the Armed Forces, and others will be returning shortly. To all of them we extend the hand of welcome and our gratitude for their service to their country. We have restored them to their former, or comparable, positions, and we shall do our part in helping them to successfully resume their places in our organization.

We desire to express our appreciation for the fine cooperative effort of all our fellow-workers in the difficult year just closed.

By order of the Board of Directors.

HERBERT J. TILY,
President

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

PHILADELPHIA
FIDELITY-PHILADELPHIA TRUST BLDG.
DELIVERY ZONE 9

STOCKHOLDERS,
STRAWBRIDGE & CLOTHIER,
Philadelphia, Pa.

We have examined the balance sheet of STRAWBRIDGE & CLOTHIER as of January 31, 1946, and the statement of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of STRAWBRIDGE & CLOTHIER at January 31, 1946, and the results of its operations for the year, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

March 27, 1946.

STATEMENT OF PROFIT AND LOSS AND SURPLUS

STRAWBRIDGE & CLOTHIER

Fiscal year ended January 31, 1946

Profit before deducting interest, depreciation and provision for federal and state income taxes		$7,132,834.91
Deduct:		
Interest	$ 194,988.18	
Depreciation	415,746.74	610,734.92
PROFIT BEFORE TAXES ON INCOME		$6,522,099.99
Taxes on income:		
Provision for current year—estimated:		
Federal normal and surtax	$ 610,000.00	
Federal excess profits tax	3,825,000.00	
State income tax	255,000.00	4,690,000.00
NET PROFIT		$1,832,099.99
Earned surplus at February 1, 1945		3,290,270.11
		$5,122,370.10
Deduct:		
Cash dividends declared:		
Prior preference stock ($6.00 per share)	$ 90,772.00	
$5.00 cumulative preferred stock ($5.00 per share).	388,490.00	
Five per cent preferred stock ($48.92 per share)	39,489.52	518,751.52
EARNED SURPLUS AT JANUARY 31, 1946		$4,603,618.58
Capital surplus at February 1, 1945	$ 845,248.33	
Add proceeds from sale of 1,000 shares of treasury common stock	42,431.46	
	$ 887,679.79	
Deduct premium paid on preferred stocks acquired	6,030.00	
CAPITAL SURPLUS AT JANUARY 31, 1946		881,649.79
TOTAL SURPLUS AT JANUARY 31, 1946 (Notes A, B and D)		$5,485,268.37

See accompanying notes to financial statements

ASSETS

CURRENT ASSETS		
Cash		$ 5,237,164.30
Accounts receivable:		
Customers' charge accounts	$ 3,587,265.48	
Customers' installment accounts	838,500.05	
Creditors' debit balances	106,434.63	
	$ 4,532,200.16	
Less reserve	200,000.00	4,332,200.16
Merchandise inventories (Note A)		3,872,848.25
TOTAL CURRENT ASSETS		$13,442,212.71
OTHER ASSETS		
Mortgages receivable and accrued interest	$ 56,178.33	
Miscellaneous accounts receivable and advances	24,174.07	
Sundry investments—at cost	68,326.00	
	$ 148,678.40	
Less reserve	50,000.00	98,678.40
PROPERTY, FIXTURES AND EQUIPMENT—At cost		
Operating—land, buildings and equipment (after reserve of $6,911,597.31 for depreciation)	$14,345,483.79	
Non-operating—land and buildings (after reserve of $45,538.33 for depreciation)	381,964.64	14,727,448.43
DEFERRED CHARGES		
Prepaid expenses	$ 111,380.73	
Supply inventories	147,033.59	258,414.32
		$28,526,753.86

See accompanying notes

LIABILITIES

CURRENT LIABILITIES			
Mortgage installments due within one year		$ 40,000.00	
Term note installments due within one year		528,921.85	$ 568,921.85
Accounts payable			1,685,723.69
Accrued accounts			741,735.72
Employees' income taxes withheld, and pay roll taxes			100,716.58
Federal, state and local taxes—estimated (Note A)		$ 4,950,413.59	
Less U. S. Treasury Notes, Tax Series C		232,000.00	4,718,413.59
Deposits on War bond subscriptions			26,557.27
Dividends payable			22,200.00
TOTAL CURRENT LIABILITIES			$ 7,864,268.70
TERM NOTE PAYABLE TO BANKS (Note B)			
Due in quarterly installments to July 15, 1953		$ 4,240,441.41	
Less current maturity—shown as current liability		528,921.85	3,711,519.56
FIRST MORTGAGE ON BRANCH STORE			
Due $10,000.00 quarterly to February 26, 1950		$ 170,000.00	
Less current maturity—shown as current liability		40,000.00	130,000.00
RESERVES			
For self-insurance and contingencies			282,850.00
CAPITAL STOCK AND SURPLUS			
Capital stock (Note C):			
Prior Preference Stock (total authorized 144,800 shares)—Series A 6% cumulative, par value $100.00 per share, redeemable at $105.00 per share—Authorized 14,800 shares; outstanding 14,800 shares		$ 1,480,000.00	
$5.00 Cumulative Preferred Stock, par value $100.00 per share, redeemable at $105.00 per share—Authorized 82,588 shares; outstanding 77,710 shares after deducting 3,552 shares in treasury		7,771,000.00	
Common Stock, no par value—Authorized 300,000 shares; outstanding 190,420 shares after deducting 2,104 shares in treasury		1,801,847.23	
		$11,052,847.23	
Surplus (Notes A, B and D):			
Capital surplus	$ 881,649.79		
Earned surplus	4,603,618.58	5,485,268.37	16,538,115.60
			$28,526,753.86

to financial statements.

NOTES TO FINANCIAL STATEMENTS

STRAWBRIDGE & CLOTHIER

January 31, 1946

NOTE A—Merchandise inventories are valued on the retail inventory method of accounting, adjusted to cost on the basis of "last-in, first-out" as authorized by the Internal Revenue Code. The provision for taxes on income has been made on that basis. The office of the Internal Revenue Agent in Charge at Philadelphia has examined the Company's federal income and excess profits tax returns for the fiscal years ended January 31, 1942, and 1943, and has proposed to disallow the Company's method of applying the "last-in, first-out" principle to the pricing of its inventories. The Company is contesting such proposal. If the examining officer's position is sustained, the cumulative effect to January 31, 1946, would be (1) an increase of $1,010,770.80 in the amount stated for inventories, (2) liability of approximately $775,000.00 for additional taxes on income, (3) a net increase of approximately $236,000.00 in the amount of reported profits for the five years ended January 31, 1946.

NOTE B—The agreement in connection with the term note payable to banks, provides, among other things, (1) that net current assets will not be reduced below $3,000,000.00, (2) that earned surplus will not be reduced below $2,000,000.00 through payment of dividends, and (3) that the Company will not reacquire any of its outstanding capital stock, except as required under present sinking fund provisions. Quarterly amounts of $157,500.00, covering both interest and amortization of principal, are payable under covenants of the term note.

NOTE C—Dividends on the Prior Preference Stock have been paid to December 1, 1945, a dividend date. Dividends on the $5.00 Cumulative Preferred Stock have been paid to January 1, 1946, a dividend date.

NOTE D—Surplus is restricted in the amount of $355,200.00, representing the par value of stock held in the treasury.